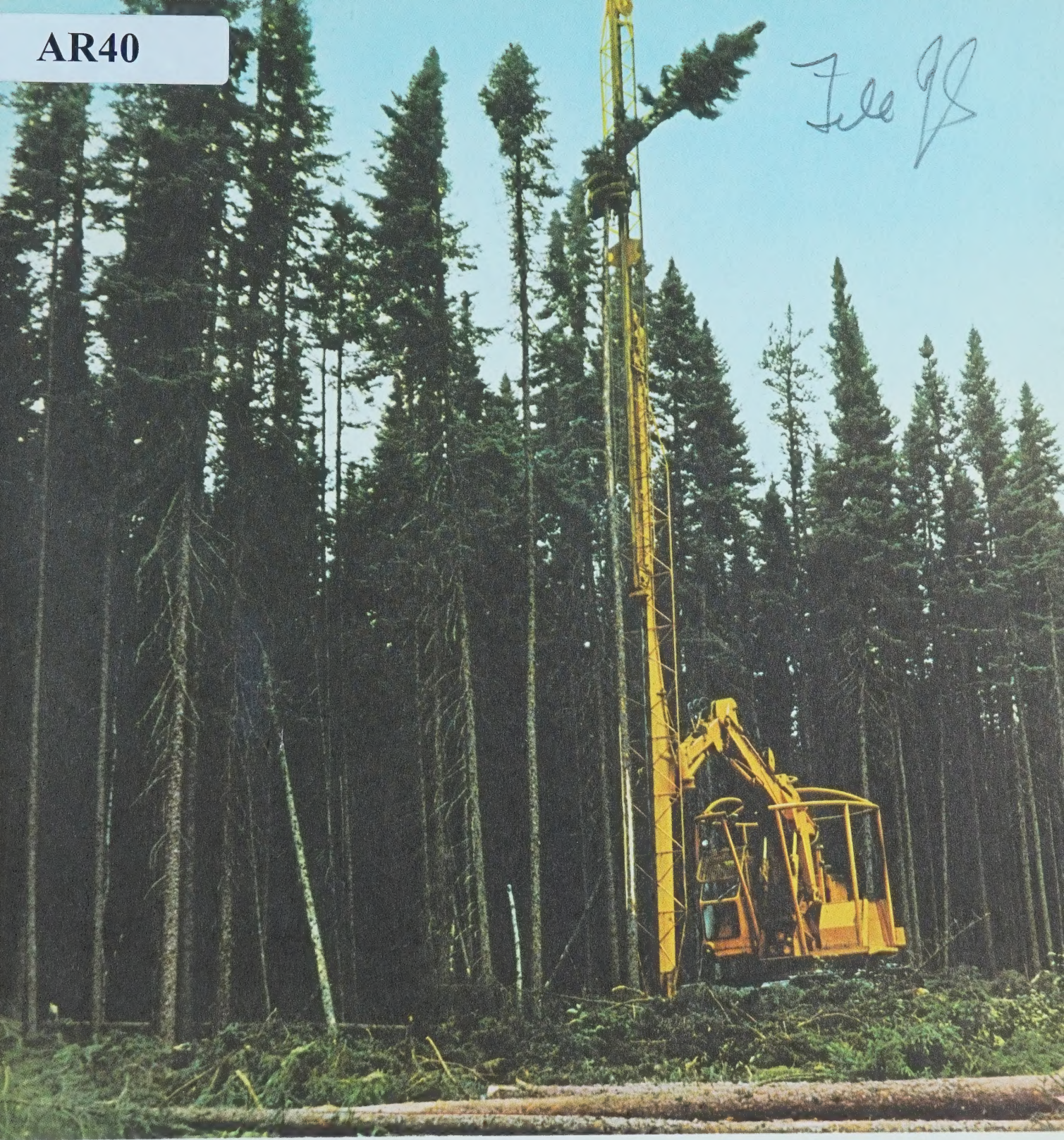


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# Great Lakes Paper 1965

ANNUAL REPORT



## BOARD OF DIRECTORS

ROSS CLARKSON . . . . .	Montreal	1955
<i>honorary chairman, Royal Trust Company</i>		
WILBUR C. COCHRANE . . . . .	Toronto	1942
<i>president, Cochrane-Dunlop Hardware Ltd.</i>		
C. J. WARWICK FOX . . . . .	Fort William	1953
<i>president, Great Lakes Paper Company</i>		
PERCY M. FOX . . . . .	Montreal	1952
<i>chairman, Great Lakes Paper Company</i>		
HON. RAY LAWSON . . . . .	Oakville, Ontario	1936
<i>chairman, Lawson &amp; Jones Limited</i>		
L. S. MACKERSY . . . . .	Toronto	1957
<i>director, Canadian Imperial Bank of Commerce</i>		
C. BLAKE McDOWELL . . . . .	Akron, Ohio	1952
<i>secretary, Knight Newspapers Inc.</i>		
R. G. MEECH, Q.C. . . . .	Toronto	1936
<i>vice-president, Loblaw Groceries Co. Ltd.</i>		
M. C. G. MEIGHEN . . . . .	Toronto	1947
<i>president, Canadian General Investments Ltd.</i>		
B. H. RIDDER, JR. . . . .	St. Paul, Minnesota	1957
<i>vice-president and secretary, Northwest Publications Inc.</i>		
CARL P. SLANE . . . . .	Peoria, Illinois	1953
<i>chairman, Peoria Journal Star</i>		
RUSS STEWART . . . . .	Chicago	1957
<i>vice-president, Field Enterprises Inc., publishers of Chicago Sun-Times and Chicago Daily News</i>		
JULES R. TIMMINS . . . . .	Montreal	1956
<i>director, Hollinger Consolidated Gold Mines Ltd.</i>		

Years denote beginning of connection with the company or its predecessor.



The front cover picture shows one of our Spruce Harvester machines in action. This machine represents the great change that has taken place in our woods operations, further described on page 20. Also described on page 20 is our new kraft pulp mill with a colored diagram showing our mill expansion in its two major stages from 1955 to 1965.

## MANAGEMENT

PERCY M. FOX, <i>chairman</i> . . . . .	1952
C. J. WARWICK FOX, <i>president &amp; general manager</i> . . . . .	1953
K. A. MINERS, <i>vice-president &amp; treasurer</i> . . . . .	1948
C. J. JEFFERY, <i>vice-president i/c manufacturing</i> . . . . .	1947
MURRAY D. SEELEY, <i>vice-president i/c woodlands</i> . . . . .	1956
C. J. CARTER, <i>vice-president i/c engineering</i> . . . . .	1947
C. R. CADDO, <i>secretary</i> . . . . .	1929
C. R. BOWLES, <i>comptroller</i> . . . . .	1964
D. D. MORROW, <i>assistant treasurer</i> . . . . .	1964

## SERVICES

Lake Superior Newsprint Co., Chicago, servicing of newsprint contracts: T. B. FALLOWS, *president*; W. D. FROST, *vice-president*. Lake Superior Pulp & Paper Inc., Chicago and New York, sale of wood pulp: T. B. FALLOWS, *president*; R. L. NASH, *vice-president*.

## AGENTS AND REGISTRAR

Our transfer agents are The Royal Trust Company, Toronto and Montreal, and the Bank of Montreal Trust Company in New York. Our registrar is The Canada Trust Company, Toronto and Montreal.



# THE GREAT LAKES PAPER COMPANY, LIMITED

## 1965 ANNUAL REPORT FROM THE DIRECTORS

*Directors listed on opposite page*

## To the Shareholders

IN 1965 we had considerably our best year to date, with new high levels in almost every respect. We give the year's results in condensed form on the next two pages, followed by a detailed account and a ten-year summary.

Our reports in recent years have become more detailed because of regulations regarding depreciation and tax deferment and we suggest that you note our explanation of these two subjects. Please note also the section dealing with debt and interest charges in connection with the cost of our new kraft pulp mill and other new projects. We have tried to avoid too much accountancy terminology and shall be glad to respond to requests for further data.

THE FINAL STAGE of construction of the kraft pulp mill was approached at the end of 1965. This was a major feature of the year, marking a new phase of expansion. It and other new projects are reported on page 9 and again on page 20, supplemented by a colored diagram. Also on page 20 is a section describing some of the great changes that have occurred in our woods operations, matching the growth of our mill.

TO PROVIDE perspective for our company operations we deal again, on pages 12 and 13, with newsprint world market data and the position of the Canadian industry as a whole. This includes an appraisal of the industry's outlook and an estimate of our own newsprint tonnage in 1966, which we expect will reach another decided new high.

We have substantial scope for further newsprint volume by establishing a work-week of seven days in place of our present six days, explained on page 11. This and our 1966 entry into the bleached kraft pulp market are important potentials of continuing growth.

On behalf of the directors,

March 30th, 1966

C. J. WARWICK FOX, *president*

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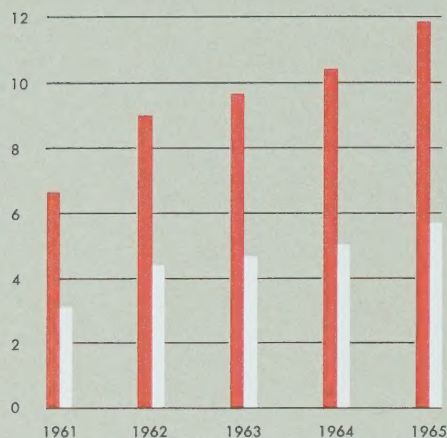
*Dollars in this report are Canadian unless otherwise identified. Amounts per share are based on 3,600,083 shares issued up to the end of 1965 out of 4,500,000 authorized.*



## PROFIT & TAXES

■ Profit Before Income Taxes  
■ Net Profit After Income Taxes

IN MILLIONS OF DOLLARS

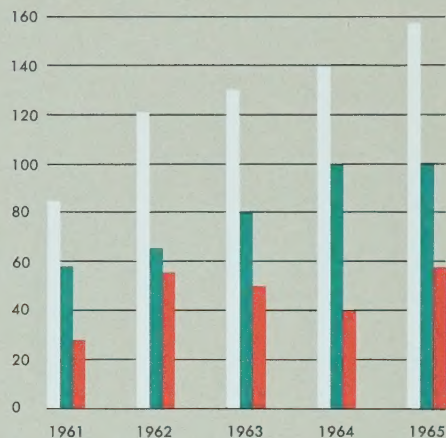


Income taxes alone have exceeded our total net profit in each of the last eight years but they are not all of our tax burden. As explained on page 5 our total taxes in 1965 amounted to \$2.13 per share versus \$1.58 of net profit per share.

## NET PROFIT & DIVIDENDS

■ Net Profit  
■ Dividends Declared  
■ Earnings Retained In The Business

IN CENTS PER SHARE

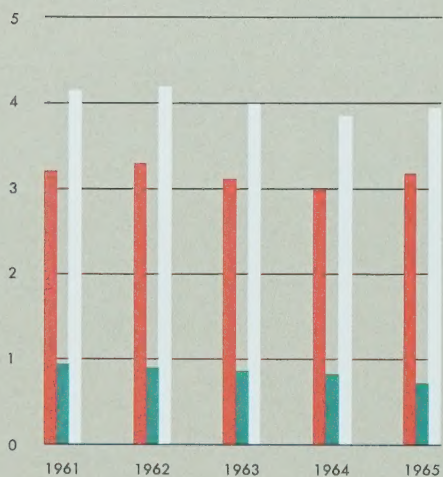


From our 1965 net profit of \$1.58 a share we declared dividends of \$1.00 a share and retained 58 cents for use in the business. In the last five years dividends have ranged from 54 to 71 percent of net profit and were 63 percent in 1965.

## DEPRECIATION & INTEREST

■ Depreciation  
■ Interest  
■ Total

IN MILLIONS OF DOLLARS

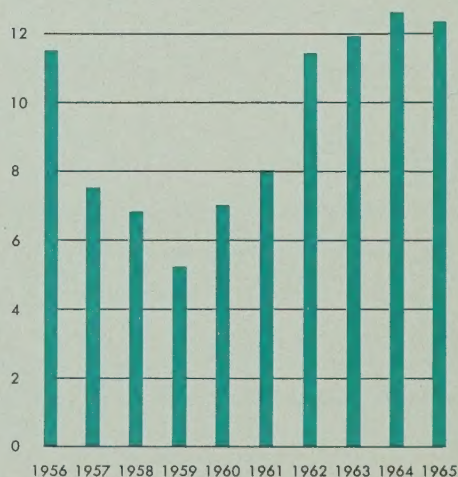


Depreciation is an increasingly important factor in its effect on income taxes. On page 7 we explain the two kinds of depreciation and our policy in each case. We also explain our policy regarding interest charges on new construction.

## PROFIT MARGIN

■ Net Profit as Percent of Sales

IN PERCENTAGES OF TOTAL SALES



In 1955 our profit margin was 14 percent. It dropped to 5.3 percent in 1959 due to the charges we had to meet during our newsprint mill expansion. It has since recovered to 12.3 and 12.2 percent in 1964 and 1965. Ten-year record on page 18.



# Scoreboard

	1965	1964	PERCENT UP OR DOWN IN 1965
newsprint shipments, tons . . .	337,045	296,059	up 13.8
surplus pulp shipments . . .	15,737	16,744	down 6.0
total shipments to customers . .	352,782	312,803	up 12.8
<i>Canadian dollars, except total sales; 000 omitted</i>			
total sales, defined on page 21 . .	\$46,872	\$41,150	up 13.9
profit on U.S. dollar exchange . .	3,434	2,986	up 15.0
sales, in Canadian dollars . . .	\$50,306	\$44,136	up 14.0
operating profit, see page 21 . .	15,746	14,068	up 11.9
interest charges . . . . .	774	821	down 5.7
depreciation and depletion . . .	3,167	3,032	up 4.5
profit before income taxes . . .	11,863	10,417	up 13.9
provision for income taxes . . .	—	2,948	—
deferred liability . . .	6,165	2,422	—
	6,165	5,370	up 14.8
NET PROFIT: total amount . . .	\$ 5,698	\$ 5,047	up 12.9
net per share . . .	\$1.58	\$1.40	up 12.9
dividends declared: total . . .	\$ 3,600	\$ 3,600	same
amount per share . . .	\$1.00	\$1.00	same
% of net per share . . .	63	71	—
cash flow, defined on page 21 . .	\$16,684	\$10,501	up 58.9
working capital at year-end . . .	8,499	8,976	down 5.3
fixed assets, at year-end . . .	102,419	74,653	up 37.2
earned surplus, at year-end . . .	22,981	20,883	up 10.0

## HIGHLIGHTS OF '65

□ Net profit of \$1.58 a share was a new high. We paid out 63.3 percent of this in dividends of \$1.00 a share.

□ U.S. newsprint consumption set a new record and gave us a strong new high in tons shipped to our customers.

□ We had new highs also in total dollar sales and cash flow. Working capital was reduced: details on page 8.

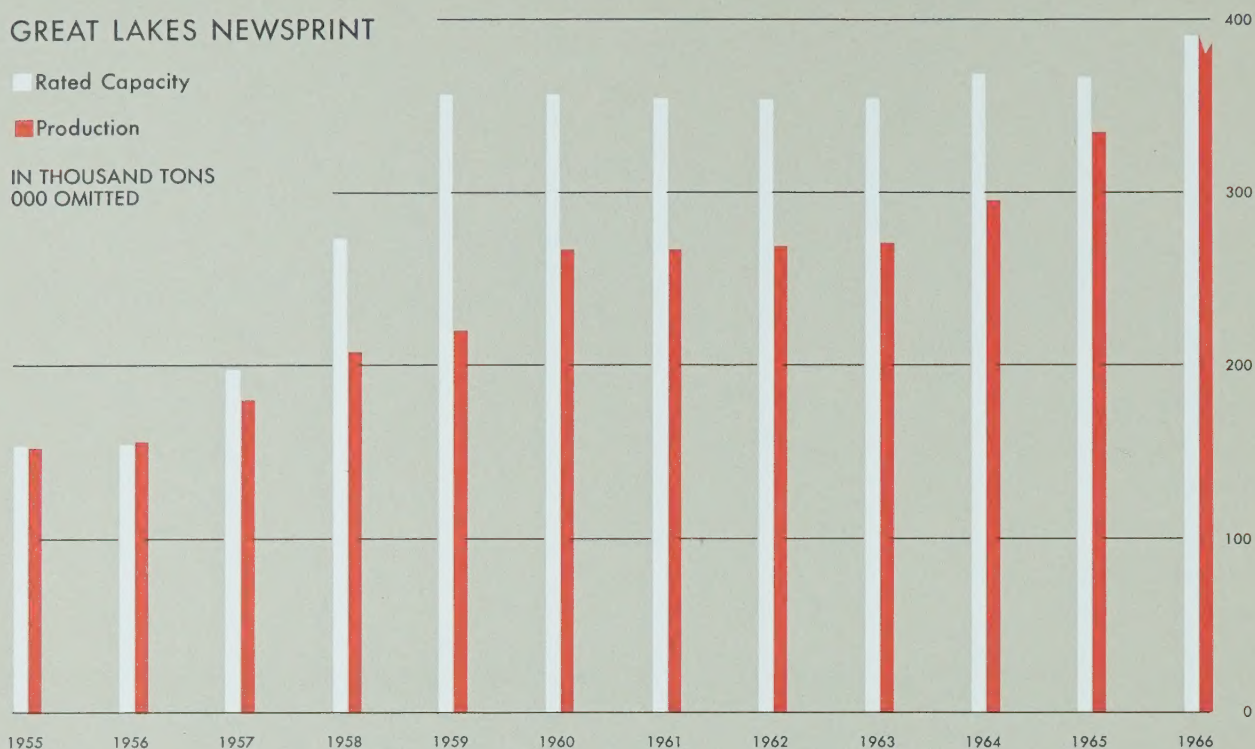
□ Our new 200,000 ton kraft pulp mill neared completion and we enter the bleached kraft pulp market in 1966.

□ By early in 1966 we made agreements firm to April 1968 with five labor unions representing our mill work force.

*Annual and special general meeting of the shareholders will be held April 20th, 1966 at 11.30 a.m. Eastern Standard Time in the Royal York Hotel, Toronto as per previous formal notice.*



## GREAT LAKES NEWSPRINT



For 1965 we estimated our newsprint production at 315,000 tons. Our actual production proved to be 336,377 tons and we estimate another new high of about 390,000 tons in 1966. Our 1965 operating ratio of 91.2 percent of our capacity, by industry rating, was considerably our best since completion of our newsprint expansion in 1958. In several months of 1965 we reached virtually maximum output in terms of industry capacity rating but we have a substantial further capacity potential by establishing a seven-day week in place of our present six-day week. Our capacity potential is further described on page 11. Newsprint has accounted for about 95 percent of our total dollar sales through the past three years, a preponderance which is likely to diminish with sales of bleached kraft pulp from our new mill starting in 1966.

In Tons	Newsprint Capacity	Newsprint Production	Operating Ratio (%)	Newsprint Shipments	Total: Newsprint + Pulp Production Shipments	
1956	156,156	157,687	100.9%	157,829	205,493	205,649
1957	198,312	182,075	91.8	175,569	223,839	217,485
1958	273,900	207,073	75.6	196,564	253,268	242,725
1959	358,512	221,552	61.8	235,697	258,531	272,357
1960	359,676	268,468	74.6	267,777	291,352	290,257
1961	357,348	268,619	75.2	267,797	291,594	291,110
1962	356,356	269,794	75.7	268,943	292,490	290,782
1963	356,048	272,956	76.7	275,686	294,580	296,753
1964	370,182	296,903	80.2	296,059	312,944	312,803
1965	368,676	336,377	91.2	337,045	351,187	352,782

For 1966 our rated newsprint capacity is 391,468 and estimated production is 390,000 tons, a ratio of 99.6 percent of this capacity.





## Tons, Sales and Earnings at New Highs

Our \$5,697,776 of total net profit in 1965 was a new high and marked our sixth consecutive year of improved earnings, despite higher costs and a tax burden again much greater than our profit. We also had notable new highs in tonnage volume, dollar sales and cash flow, newsprint tonnage gain being the main factor in our better earnings. Working capital was reduced 5.3 percent as shown in the table and chart on page 8. We draw your attention also to the eight tables of company data on page 6 and to various charts and tables on other pages, all of which form part of our report of 1965 results.

### Net Profit Up 12.9 Percent

Our 1965 operating profit of \$15,745,519 and profit before taxes of \$11,862,776 were gains over 1964 of 11.9 and 13.9 percent respectively. Our total net profit of \$5,697,776 amounted to \$1.58 per share, an increase of 12.9 percent. Results by quarters are tabulated on the next page.

From U.S. dollar exchange we obtained a profit of \$3,434,613 in 1965 versus \$2,986,377 in 1964. This was equivalent to 7.3 percent of our total sales in both years, the 1965 increase in amount being due to higher sales volume. Our 1965 earnings were also assisted by a relatively low level of total depreciation and interest charges, explained in later sections. These charges will be up again in 1966 when the new kraft pulp mill comes into production.

Provision for income taxes amounted to \$6,165,000 or \$1.71 per share. Other 1965 taxes and government charges consisted of Ontario stumpage dues, ground rent and fire tax plus substantial municipal taxes. Added to income taxes these made our total 1965 tax burden \$2.13 per share versus net profit of \$1.58 per share.

Dividends declared in 1965 were \$1.00 a share, as in 1964, and amounted to 63.3 percent of net profit. Dividends and retained earnings are charted on page 2. In dividend policy we believe that capital expenditure should be financed chiefly by borrowing

and future repayment rather than by immediate drain on earnings.

### New High in Newsprint

Our 1965 newsprint shipments of 337,045 tons exceeded the 300,000 mark for the first time and were 13.8 percent ahead of the 296,059 tons shipped in 1964. There was nothing freakish in this gain; it was solidly based on rising demand with 1965 U.S. newsprint consumption reaching a new high. Further consumption increase is expected in 1966.

Our shipments of surplus sulphite pulp were 15,737 tons in 1965 versus 16,744 tons in 1964 to make total shipments, newsprint plus pulp, of 352,782 tons in 1965 versus 312,803 in 1964. Newsprint accounted for about 95 percent of our total tons shipped. Our 1965 production and shipments were so closely in balance that inventory changes were negligible. Details of our production and shipments are given with the long term chart and table on page 4 opposite.

### Total Sales Up 13.9 Percent

Total sales, defined on page 21, amounted to \$46.9 million (\$U.S.) in 1965 versus \$41.1 million in 1964. This is an increase of 13.9 percent and a new high. Newsprint sales were \$45.2 million or 96.4 percent of the total, the balance being sales of surplus sulphite pulp. As noted on page 4, this high percentage of newsprint sales is likely to diminish as we make progress in the marketing of our bleached kraft pulp. Our 1965 gain in newsprint sales was wholly due to higher tonnage volume as there has been no change in our newsprint market prices since 1957. Our tonnage of newsprint shipments has more than doubled in the last ten years.

Our shipments of newsprint and pulp to customers in 1965 totalled 5,977 rail carloads and 77 ship loadings from our mill dock. We also had an inward traffic of 9,129 carloads plus a large volume of water cargoes and trucking bringing pulpwood and other



## SOME COMPARISONS OF 1965 RESULTS

The tables below supplement the company charts on other pages in providing details and comparisons of our results in 1965; they are part of our account of the year. Further comparisons through the past ten years are in the summary of 40 financial items on pages 18 and 19 and Canadian newsprint industry and world market tables are on page 12. The increased percentage of newsprint in our total sales since 1955 (table below) is referred to on page 4.

### 1965 RESULTS BY QUARTERS

Dollars in thousands, 000 omitted.

quarter	total sales	operat. profit	net profit
First	\$ 9,493	\$ 2,806	\$ 894
Second	12,091	4,379	1,648
Third	12,260	4,363	1,641
Fourth	13,028	4,198	1,515
Totals	\$46,872	\$15,746	\$ 5,698

Total sales are in U.S. dollars; the other two items include profit derived from U.S. dollar exchange.

### CASH FLOW TOTAL & DETAILS

	1965	1964	1963	1960
Total (\$000)	\$16,684	\$10,501	\$ 7,804	\$ 5,967
Per share	4.63	2.92	2.17	1.66
Per ton*	47.29	33.57	26.29	20.55

\*Per ton of total shipments on page 4.

### TOTAL SALES & NEWSPRINT

\$000 U.S.; newsprint+pulp; tons on page 4.

	1965	1964	1963	1955
Total sales	\$46,872	\$41,150	\$39,195	\$24,814
Newsprint*	45,176	39,422	37,069	19,585
Newsprint %	96.4	95.9	94.6	78.9

\*Referred to with chart on page 4.

### U.S. DOLLAR EXCHANGE PROFIT

\*Loss in 1960.

(\$000)	1965	1964	1963	1960
Exchange profit	\$3,434	\$2,986	\$2,903	\$880*
% of total sales	7.3	7.3	7.4	2.3

### NET PER SHARE BY QUARTERS

Per share of 3,600,083 shares issued end of 1965.

quarter	1965	1964	1963	1960
First	\$0.25	\$0.23	\$0.21	\$0.12
Second	0.46	0.42	0.34	0.20
Third	0.45	0.35	0.32	0.16
Fourth	0.42	0.40	0.43	0.24
	\$1.58	\$1.40	\$1.30	\$0.72

During the year we issue quarterly reports of shipments, sales, earnings and other results of our operations.

### DEPRECIATION & INTEREST

(\$000)	1965	1964	1963	1960
Depreciation*	\$3,167	\$3,032	\$3,131	\$3,389
Interest	774	821	863	1,008
Totals	\$3,941	\$3,853	\$3,994	\$4,397

\*Depreciation includes depletion.

### SALES & PROFIT PER TON

Per ton of total shipments as on page 4.

	1965	1964	1963	1960
Sales (\$U.S.)	\$132.86	\$131.55	\$132.08	\$132.33
Net profit	16.15	16.13	15.74	9.29
Margin*	12.2%	12.3%	11.9%	7.0%

\*Net profit as percent of sales.

### SHAREHOLDERS & OWNERSHIP

\*Percent of 3,600,083 shares issued end of 1965.

	1965	1964	1963	1960
*Owned in Canada	93.7%	92.9%	93.3%	91.0%
No. of shareholders	6,926	6,340	6,295	5,291



supplies for our operations and our new mill and other construction. All of this traffic considerably exceeded our 1964 volume.

Distribution of our sales revenue, including profit from U.S. dollar exchange, through the last three years is shown in a table on page 10. Of our 1965 revenue, costs and charges took 88.6 percent, dividends amounted to 7.2 percent, and we retained 4.2 percent for use in our business.

## Our Products and Prices

Our products for 1966 consist of newsprint paper, bleached kraft pulp and unbleached sulphite pulp. Based on our present work-week of six days our 1966 newsprint capacity is rated at 391,468 tons, with a potential well in excess of this as explained on page 11. Our new kraft pulp mill has a capacity of 200,000 tons a year and our use of kraft pulp in the manufacture of newsprint will release for sale a considerable part of our 100,000 tons of annual sulphite pulp capacity previously required for newsprint production.

Newsprint prices in the U.S. market showed no change in 1965. In the main east and midwest areas the price for delivery at New York and similar destinations was \$134.00 a ton, unchanged since 1957, and on the west coast was \$10.00 lower due to a reduction made by west coast mills in November 1964. We still see no sound reason for this reduction in view of rising costs and strong demand. We have no newsprint contract customers in Canada.

The market price of our unbleached sulphite pulp rose from \$125.00 to \$129.00 a ton effective January 1st, 1965 and remained at this level throughout the year. The market price of bleached kraft pulp, such as we shall sell, was \$155.00 a ton throughout 1965.

## Sales and Profit Per Ton

With our newsprint market prices static since 1957 our sales per ton of total shipments, newsprint plus pulp, have shown negligible changes in recent years as tabulated on page 6. Our net profit per ton, however, has recovered considerably from a 1959 low thanks mainly to increased sales volume and also to a general downward trend of total charges for interest and depreciation since 1959.

Profit per ton of total shipments was down to \$6.98 in 1959 and has since recovered year by year to \$16.13 in 1964 and \$16.15 in 1965. This is still short of our mark of \$17.64 per ton in 1955.

Our profit margin, which means net profit as a percentage of total sales, has followed a similar pattern. It was 14 percent in 1955, dropped to 5.3 percent in 1959 and has since gradually moved up to 12.3 percent in 1964 and 12.2 percent in 1965.

## Cash Flow at Strong New High

Cash flow, defined on page 21, moved up strongly again in 1965 to a new high of \$16.7 million versus \$10.5 million in 1964. These totals amount to \$4.63 and \$2.92 a share respectively, a 1965 increase of 58.9 percent. More details are tabulated on page 6 and pages 18 and 19.

Cash flow has been in a steady upward trend from \$4.6 million in 1957. The large increases in 1964 and 1965 have mainly been due to increases in our accumulated tax reduction applicable to future years, an important subject dealt with later.

## Deducted Depreciation

There are two kinds of depreciation and they are decidedly different. One is depreciation deducted from earnings; the other is depreciation claimed for income tax purposes, known as capital cost allowances. We deal here with deducted depreciation. Depreciation for taxes is in the section that follows.

Deducted depreciation is shown in our profit and loss statement on page 15 and amounted to \$3,166,642 in 1965 versus \$3,031,914 in 1964. These amounts were based on the maximum rates allowed under the Income Tax Act of 1962 on plant and equipment in production. They do not include depreciation on projects under construction, such as our kraft pulp mill. We do not charge depreciation against plant and equipment until they are in production and earning revenue. Depreciation includes depletion, both defined on page 21 and shown for the past ten years on pages 18 and 19.

## Depreciation for Taxes

For income tax purposes we claim depreciation or capital cost allowances on all plant and equipment at the maximum rates permitted under the Income Tax Act, including the accelerated allowances established by 1964 tax legislation. In recent years the allowances we have thus claimed have exceeded our depreciation deducted from earnings and the result has been a deferment of taxes. This is shown in our balance sheet on page 17 as a deferred credit, described as "accumulated tax reductions applicable to future years".

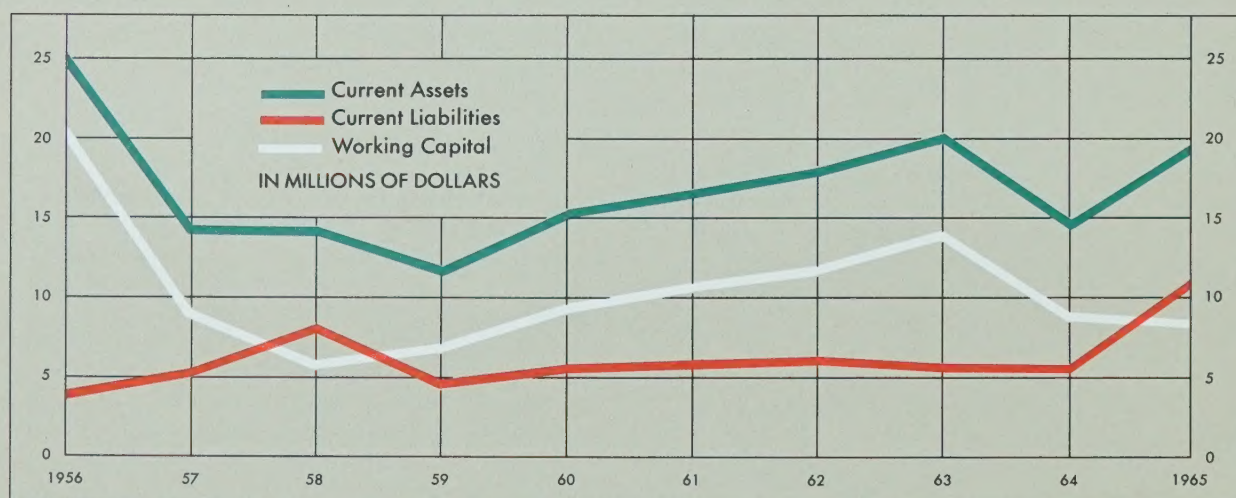


# Working Capital Down 5.3 Percent

## SOURCE AND APPLICATION OF FUNDS

Working capital is the difference between current assets and current liabilities, shown in the chart at the bottom of the page, and varies with changing needs and conditions. Our working capital was reduced in 1964 and again slightly in 1965 due to expenditures on our new kraft pulp mill and other projects described on page 20. Details of the last three years are in the table below and the last ten years are summarized on pages 18 and 19.

SOURCE OF FUNDS	1965	1964	1963
net profit, as reported on page 15 - - - - -	\$ 5,697,776	\$ 5,047,008	\$ 4,672,324
exercise of share option - - - - -	2,075	—	—
provision for depreciation and depletion - - - - -	3,166,642	3,031,914	3,131,191
portion of proceeds of debenture issue - - - - -	18,812,500	—	—
increase in deferred liability for income taxes - - - - -	7,820,000	2,422,000	138,000
	<u>\$35,498,993</u>	<u>\$10,500,922</u>	<u>\$ 7,941,515</u>
APPLICATION OF FUNDS			
expenditure on properties - - - - -	\$28,093,101	\$11,115,497	\$ 1,766,925
provision for sinking fund - - - - -	4,283,000	1,042,000	1,042,000
dividends declared - - - - -	3,600,063	3,600,000	2,880,000
	<u>\$35,976,164</u>	<u>\$15,757,497</u>	<u>\$ 5,688,925</u>
increase or decrease* in working capital - - - - -	\$ 477,171*	\$ 5,256,575*	\$ 2,252,590
working capital, at year-end - - - - -	\$ 8,499,068	\$ 8,976,239	\$14,232,814





For 1965 our claim of capital cost allowances for tax purposes exceeds our depreciation deducted from earnings by \$15.1 million and, for tax purposes, this creates a loss instead of a profit in our 1965 earnings. The result is \$7.8 million of tax deferment, consisting of the \$6.2 million we provided for 1965 income taxes plus \$1.6 million recovery of 1964 income taxes arising from the application of our 1965 loss for tax purposes against our 1964 taxable income.

The above \$7.8 million of deferred taxes has been added to our previous \$3.3 million of accumulated tax reduction to make a total of \$11.1 million of accumulated reduction at the end of 1965 as shown in our balance sheet, page 17. In future years when our capital cost allowances prove to be less than our depreciation deducted from earnings the additional tax thus caused will be charged against our accumulated tax reduction. This will reflect in such years the correct deduction of income taxes from our annual profits.

## Deferment vs Flow-Through

Our above method of treating income tax reductions is known as the deferred-credit method. Another method is known as the flow-through method, by which only the income taxes actually payable for a year are deducted from earnings. We believe that our deferred-credit method gives a realistic matching of our earnings and income taxes, whereas the flow-through method could cause wide year to year fluctuations in our earnings that could be confusing.

For example, on the flow-through basis our 1965 net earnings would be \$11.8 million in place of our actual \$5.7 million. Circumstances in 1965 were unusual because of our large capital expenditures but these figures serve to illustrate the difference in results obtained by the two methods.

## Debt and Interest Charges

During 1965 we reduced our long term debt by \$1,042,000 through repayments of principal. These included the balance of our 4% serial bonds. We have also provided for \$4,283,000 of payments of principal required during 1966 of which \$4,183,000 is included in our 1965 current liabilities and the balance of \$100,000 consists of bonds we purchased during the year. At the end of 1965 our long term debt due after 1966 had thus been reduced to \$34,313,000 as shown in the details of bonds and debentures on page 17.

Interest charges paid in 1965 totalled \$774,190 versus \$820,960 in 1964. These charges do not include interest on the financing of our new construction program, such interest being capitalized until the new facilities come into production. In 1965 this amount was \$545,546.

## Shares Issued Under Options

As reported in 1964 we offered our newsprint contract customers an option to buy common shares of the company under certain conditions. In 1964 we granted options for 180,621 shares and during 1965 issued 83 shares under such options which customers exercised. The shares thus issued increased our paid-up capital by \$2,075 as shown in our balance sheet and, at the end of 1965, made a total of 3,600,083 shares issued out of 4,500,000 authorized. All figures per share in this report are based on the new total of 3,600,083 shares issued.

## New Mill and Other Projects

Construction of our kraft pulp mill began in August 1964 and had approached completion at the end of 1965. Like many Canadian projects during 1965, we had unforeseeable delays due to acute and repeated shortages of construction workers and delays in delivery of materials. Allowing for the necessary breaking-in period of a new mill we now expect to be into saleable production of bleached kraft pulp during the spring of 1966.

The initial plan for the kraft pulp mill was revised to increase the tonnage available for sale and improve operating efficiency. This revision and the unforeseeable delays referred to above, together with an abnormal rise in construction costs generally, bring the estimated completed cost of the mill to \$35.7 million of which \$30 million had been expended at the end of 1965.

After planning the new kraft pulp mill we undertook other construction projects estimated to cost \$6.6 million. These projects include the following major items. (1) A new boiler to replace an obsolete smaller unit to provide increased steam for all phases of our mill operations. (2) A large refuse boiler replacing a smaller inadequate unit to give extra reserve steam capacity and reduce the cost of bark disposal. (3) Facilities for the initial stages of mill effluent treatment for the control of water pollution. (4) A new laboratory for research and development and for the study of new products,

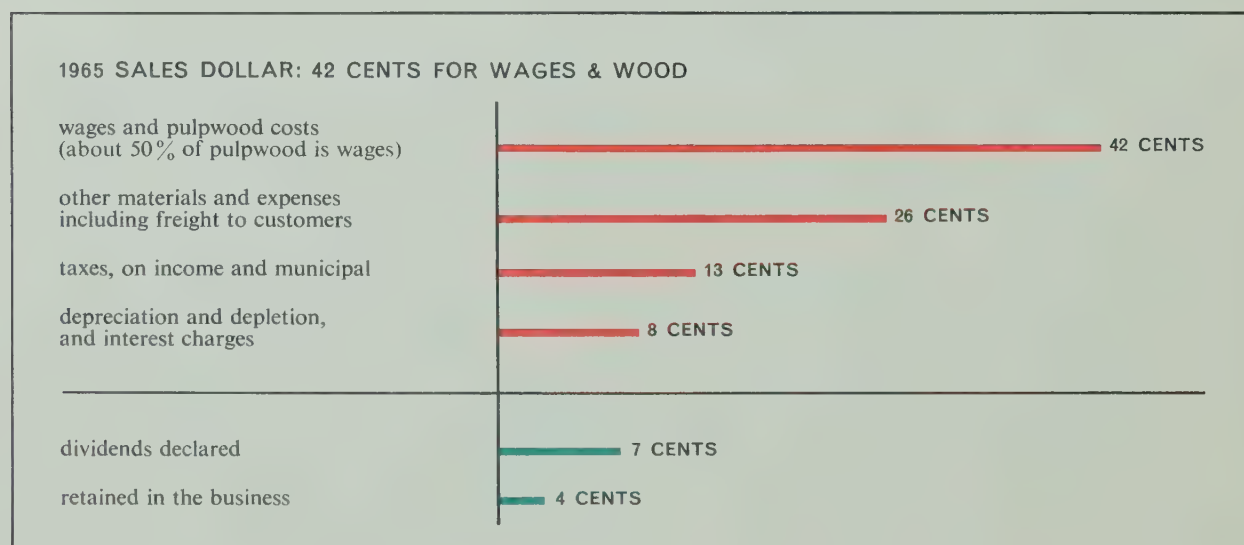


# Costs Took 88.6% of 1965 Sales Revenue

## DISTRIBUTION OF REVENUE LAST THREE YEARS

	1965		1964		1963	
Sales revenue includes our profit from dollar exchange.	dollars (000)	percent of total	dollars (000)	percent of total	dollars (000)	percent of total
wages, salaries, benefits - - - - -	\$ 8,731	17.4	\$ 7,100	16.1	\$ 6,967	16.5
pulpwood (about 50% wages) - - - - -	12,492	24.8	10,953	24.8	11,008	26.2
other materials and expenses - - - - -	7,469	14.8	6,927	15.7	5,775	13.7
freight, delivery to customers - - - - -	5,555	11.0	4,625	10.5	4,434	10.5
taxes, income and municipal - - - - -	6,420	12.8	5,631	12.8	5,248	12.5
depreciation and depletion - - - - -	3,167	6.3	3,032	6.9	3,131	7.4
interest charges - - - - -	774	1.5	821	1.8	863	2.1
total costs and charges - - - - -	\$44,608	88.6	\$39,089	88.6	\$37,426	88.9
dividends declared - - - - -	3,600	7.2	3,600	8.1	2,880	6.8
retained in the business - - - - -	2,098	4.2	1,447	3.3	1,792	4.3
total sales revenue - - - - -	\$50,306	100.0	\$44,136	100.0	\$42,098	100.0

As shown in the table above our main items of cost are wages and pulpwood, and about half of our pulpwood cost is also for wages. In the last three years these two items have required 41 to 42 percent of our sales revenue. Income and municipal taxes have taken 12 to 13 percent and our total costs have been consistent at about 89 percent of revenue. This has left 7 to 8 percent for dividends to shareholders and 3 to 4 percent to retain in the business.





techniques and production control coupled with improved customer service. (5) Facilities for the future installation of a steam turbine for the production of electric power to help us avoid power cost increases.

The new kraft pulp mill and other projects are described on page 20, supplemented by a colored diagram. In the bleached kraft pulp market we feel confident of establishing a permanent place for we can offer buyers both superior quality and dependable supply. For dependability we have 200,000 tons of annual capacity and 13,700 square miles of northern forest areas. We also have a lakehead mill location on two main transcontinental railway lines and the St. Lawrence Seaway, readily adaptable to delivery by rail or water. All sales of our kraft pulp in the U.S. market will be made by Lake Superior Pulp & Paper Inc., with offices in Chicago and New York.

## Five Labor Union Agreements

Our mill work force is represented by five labor unions. During the latter part of 1965 we stabilized our labor situation by completing agreements, firm until April 30th, 1968, with four of these unions and had an agreement with the fifth union pending. The four completed agreements were with International Union of Operating Engineers, Local 865; United Papermakers and Paper Workers, Local 257; International Brotherhood of Pulp, Sulphite and Paper Mill Workers, Local 39; and Office Employees International Union, Local 386, representing office clerical staff, camp and depot clerical employees, scalers and tallymen. The pending agreement, settled early in 1966, was with International Brotherhood of Electrical Workers, Local 1565.

Agreements similar to ours made by other companies in eastern Canada have been reported by Newsprint Information Committee, New York, to mean an estimated average newsprint cost increase of \$5.00 to \$6.00 a ton throughout the life of the agreements. This does not take into account increases in the costs of materials or in freight rates.

## Newsprint Capacity Factors

For anyone owning shares in a newsprint company it is useful to know the factors involved in newsprint capacity ratings for they can have an important bearing on a company's potential performance. We now amplify some earlier references to this subject.

Capacities of countries other than Canada are as reported or claimed by individual producers and hence are open to inconsistencies and possible overstatement not comparable with Canadian standard ratings. For all mills in Canada capacities are rated by independent statisticians on a standard formula of actual performance per workday. Annual Canadian mill capacities are daily capacities multiplied by the number of workdays in a calendar year and an important factor in individual mill ratings is that the number of workdays varies considerably between mills in different parts of Canada.

In most parts of Canada, as in other countries, mills now have continuous operation, commonly known as a seven-day week. But in Ontario and Quebec a number of companies, including ours, still operate a six-day week. A seven-day week can mean up to 360 workdays a year while a six-day week may mean only 308 workdays, which is our own case in both 1965 and 1966.

The trend in Canada is towards continuous operation. In 1963 and 1964 it was estimated by Newsprint Association of Canada that a seven-day week for all mills in Canada would increase total Canadian capacity by some 600,000 tons a year. At the end of 1965 this estimate had been reduced to 165,000 tons because of the additional mills which adopted continuous operation during the year. The 1966 capacity ratings of these mills were increased accordingly and the difference between the former potential of 600,000 tons and the present estimate of 165,000 tons is contained in the increased Canadian capacity total of 8,906,000 tons for 1966. The remaining potential of 165,000 tons has become relatively unimportant in the margin between world supply and demand, but is highly significant to some individual companies such as ours.

Our mill's capacity rating of 391,468 tons for 1966 is a proper rating by the standard formula of performance referred to above but we have two potential capacity increases of substantial amount. One is in our daily rating since our No. 3 and No. 4 machines are capable of higher output. The other potential is in our possible establishment of a seven-day week, referred to in earlier pages.

Should we arrange for continuous seven-day week operation we estimate that this, combined with a higher daily rating, would mean an annual capacity rating for our mill of approximately 440,000 tons. This represents additional capacity for our mill of some 50,000 tons a year with no new construction involved, a factor of importance to customers as well as to shareholders.



## CANADA AND WORLD NEWSPRINT DATA

Trends shown below are amplified on page 13 opposite. Tons are in thousands, 000 omitted. Operating ratio is production as percentage of capacity. Demand is shipments taken. Some 1965 figures are not final and world totals omit nine communist countries for which reliable information is unavailable. Source of all industry data in this report is Newsprint Association of Canada.

### TOTAL WORLD SUPPLY

	1965	1963	1960	1955
World capacity	19,229	18,273	16,179	11,657
World production	17,037	15,192	14,179	11,509
Operating ratio	88.6	83.1	87.6	98.7
Excess capacity	2,192	3,081	2,000	148

### WORLD DEMAND & IMPORTS

	1965	1963	1960	1955
Total demand	17,227	15,286	14,395	11,667
All imports	9,602	8,353	8,224	7,315
Import % of total	55.7	54.6	57.1	62.7
U.S. imports	6,348	5,369	5,426	5,216

### FIVE TOP PRODUCERS

	1965	1960	1955	1950
Canada	7,720	6,739	6,191	5,279
U.S.A.	2,180	2,038	1,552	1,015
Japan	1,314	810	507	145
Finland	1,110	744	590	460
Britain	900	831	694	609

### FIVE TOP CONSUMERS

	1965	1960	1955	1950
U.S.A.	8,466	7,380	6,590	5,921
Britain	1,573	1,464	988	650
Japan	1,320	804	498	139
W. Germany	815	588	392	230
France	602	548	457	312

### CANADIAN PRODUCTION

	1965	1964	1960	1955
Total capacity	8,421	8,274	7,611	6,064
Tons produced	7,720	7,301	6,739	6,191
Excess capacity	701	973	872	nil
Operating ratio	91.7	88.2	88.5	102.1
U.S. ratio	87.3	91.6	85.0	110.2
World ratio	88.6	83.1	87.6	98.7

### CANADIAN PERCENTAGES

	1965	1964	1960	1955
Of world capacity	43.8	43.9	47.0	52.0
Of world excess	32.0	39.5	43.6	nil
Of world production	45.3	44.6	47.5	53.8
Of world exports	75.7	74.6	77.6	80.3
Of U.S. supply	72.0	69.9	71.5	77.0
Of supply abroad	13.0	14.0	15.1	15.8

### CANADIAN SHIPMENTS

	1965	1964	1960	1955
Tons to U.S.	6,093	5,648	5,279	5,070
To overseas markets	1,063	1,111	986	735
In Canada	590	550	487	430
Total tons shipped	7,746	7,309	6,752	6,235
% to U.S.	78.7	77.3	78.2	81.3
% to overseas	13.7	15.2	14.6	11.8
% in Canada	7.6	7.5	7.2	6.9

### U.S. SUPPLY SOURCES

	1965	1964	1960	1955
Tons from Canada	6,093	5,648	5,279	5,070
From U.S. mills	2,118	2,170	1,954	1,374
From Europe	255	260	147	146
Total tons of supply	8,466	8,078	7,380	6,590
% from Canada	72	70	72	77
% from U.S. mills	25	27	26	21
% from Europe	3	3	2	2





## Two Trends in World Newsprint

Two trends in the world newsprint market can be seen in the tables on the opposite page. One is in the margin between supply (capacity) and demand. The other is in the decline of imports as a percentage of total world demand.

The margin between supply and demand is well shown by operating ratio, which is production as a percentage of capacity. With postwar increases in capacity outpacing growth of demand, operating ratio dropped to 83 percent in 1963. This trend was reversed in 1964 and 1965 with operating ratio up to nearly 89 percent and estimated at about 90 percent for 1966. For 1967 and 1968 the prospect is a return to the previous trend. If capacity expansion materializes as now indicated in North America and elsewhere it will again outstrip the expected growth of demand.

Imports as a percentage of total world demand have dropped from 66 percent in 1950 and 63 percent in 1955 to about 55 percent in 1964-1965. This marks a continuing trend towards self-sufficiency of supply.

### Canadian Forecast: Good for 1966

The outlook for the Canadian industry in 1966 is favorable. U.S. consumption is expected to break its 1965 record and the Canadian share of this has been well maintained, although Canada's 72 percent of total U.S. supply in 1965 was aided by U.S. mill shutdowns due to strikes and floods.

Canadian production in 1966 is estimated at a new high of 8.0 million tons: an increase of 3.3 percent over 1965 and an operating ratio of 90 percent of the increased 1966 capacity. How the later outlook may be affected by the indicated world capacity expansion of 1967 and 1968 cannot yet be appraised.

### Company Outlook: Tonnage Up Nearly 16%

Our company's outlook for 1966 is a strong new high in newsprint tonnage. As stated on page 4 we expect our 1966 newsprint production to reach 390,000 tons, a gain over 1965 of more than 50,000 tons or nearly 16 percent. This represents an operating ratio of 99.6 percent of our 1966 rated capacity, with our present six-day week. Our capacity factors and potentials are explained on page 11.

It is to be kept in mind that sales and earnings do not depend on tonnage volume alone; there are also factors of dollar exchange, market conditions, cost trends and charges, and adversities that cannot be foreseen. But in general we believe that our company is in a sound and progressive competitive position, with our improved diversity of products, our high quality mill performance and increasing efficiency in the development and use of our excellent northern woods resources.

### CANADIAN CAPACITY

Newsprint capacities of companies in Canada as rated by Newsprint Association of Canada. Tons in thousands, 000 omitted.

	1966	1960	1955
Abitibi	1,067	959	761
C.I.P.	1,011	938	844
Consolidated	985	857	766
MacMillan	903	731	384
Price	887	750	685
Domtar	597	576	489
Bowater	529	469	431
Ontario	526	389	343
Great Lakes	392	360	156
Zellerbach	335	265	178
Spruce	312	277	237
Anglo-Can.	297	277	233
Ontario-Minn.	296	293	200
MacLaren	128	126	120
Kruger	127	117	65
Rothsay	122	nil	nil
B.C.F.P.	116	nil	nil
Donohue	115	109	69
Eddy	63	55	49
Beaver	37	35	31
Soucy	34	nil	nil
St. Raymond	27	28	23
	8,906	7,611	6,064

Since 1960 a substantial part of capacity increase has been due to adoption of continuous operation in place of the six-day week by a number of companies. This is further referred to on page 11.



# Notes to the Financial Statements

*These Notes relate to the Consolidated Financial Statements on Pages 15-16-17*

1. Outstanding capital commitments in connection with construction of the new kraft pulp mill and other projects not reflected in the consolidated balance sheet amount to \$3,750,000.
2. The company intends to claim for income tax purposes for the year 1965 capital cost allowance at the maximum allowable rates on all depreciable assets including construction in progress. The amount claimed will exceed the depreciation recorded in the accounts to the extent that there will be a loss. Accordingly no income will be subject to tax for the current year and the loss so determined will be deducted from the taxable income of the prior year resulting in a recovery of taxes previously paid. This recovery together with the current year's provision for income taxes has been added to the Accumulated Tax Reductions applicable to future years.
3. In 1964 the company granted to customers options to acquire, in accordance with the terms of such options, 180,621 common shares at \$25.00 per share exercisable not later than 31st December, 1973. During the year 1965 83 shares were issued under the terms of the options.
4. Interest on the 5¾ % debentures less the interest received on the proceeds thereof has been capitalized.

## Auditors' Report to the Shareholders

*To the Shareholders of The Great Lakes Paper Company, Limited*

We have examined the accompanying consolidated financial statements of The Great Lakes Paper Company, Limited for the year ended December 31, 1965 comprising the consolidated balance sheet as at that date and the consolidated statement of profit and loss and earned surplus for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. In our opinion the aforementioned consolidated financial statements present fairly the financial position of the companies as at December 31, 1965 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON

TORONTO, ONTARIO, JANUARY 28, 1966

*Chartered Accountants*



# Profit & Loss and Earned Surplus

*Consolidated Statements for years ended December 31, 1965 and 1964*

	1965	1964
Sales (in U.S. dollars) . . . . .	\$46,871,604	\$41,149,709
U.S. dollar exchange premium . . . . .	3,434,613	2,986,377
	<u>\$50,306,217</u>	<u>\$44,136,086</u>
Cost of sales, delivery, selling and administrative expenses . . . . .	<u>34,521,098</u>	<u>30,023,483</u>
Profit from operations . . . . .	\$15,785,119	\$14,112,603
Investment and other income . . . . .	58,089	201,479
	<u>\$15,843,208</u>	<u>\$14,314,082</u>
Interest on long term debt . . . . .	\$ 774,190	\$ 820,960
Depreciation and depletion . . . . .	3,166,642	3,031,914
Directors' fees . . . . .	39,600	44,200
	<u>\$ 3,980,432</u>	<u>\$ 3,897,074</u>
Profit before provision for income taxes . . . . .	\$11,862,776	\$10,417,008
Provision for income taxes . . . . .	<u>6,165,000</u>	<u>5,370,000</u>
NET PROFIT for year . . . . .	\$ 5,697,776	\$ 5,047,008
Earned surplus at beginning of year . . . . .	20,882,808	19,435,800
	<u>\$26,580,584</u>	<u>\$24,482,808</u>
Dividends declared on common shares . . . . .	<u>3,600,063</u>	<u>3,600,000</u>
EARNED SURPLUS at end of year . . . . .	<u>\$22,980,521</u>	<u>\$20,882,808</u>



# Consolidated Balance

## ASSETS

1965

1964

### CURRENT ASSETS

Cash . . . . .	\$ 2,611,553	\$ 1,662,553
Accounts receivable . . . . .	5,829,427	5,680,329
Income taxes recoverable . . . . .	1,655,000	—
Inventories at cost:		
Finished goods . . . . .	223,549	358,717
Stores, pulpwood and other raw materials . . . . .	5,792,338	4,123,199
Advances and expenditure on 1965-66 pulpwood operations . . . . .	3,292,267	2,780,187
Prepaid insurance and other expenses . . . . .	329,713	250,064
	<u>\$19,733,847</u>	<u>\$14,855,049</u>
Balance of proceeds of Debenture Issue on Deposit (\$2,500,000 U.S. funds) . . . .	\$ 2,687,500	\$21,500,000

### FIXED ASSETS—at values placed thereon at the inception of the company with subsequent additions at cost:

Land, buildings, machinery, woodlands improvements and equipment . . . . .	\$67,004,720	\$64,915,075
Deduct: Accumulated depreciation . . . . .	43,776,892	41,064,024
	<u>\$23,227,828</u>	<u>\$23,851,051</u>
Construction in progress . . . . .	\$35,414,048	\$ 9,738,192
Woodlands under lease . . . . .	\$ 4,039,539	\$ 4,065,636
Deduct: Accumulated depletion . . . . .	2,957,387	2,857,310
	<u>\$ 1,082,152</u>	<u>\$ 1,208,326</u>
Signed on behalf of the Board:	\$59,724,028	\$34,797,569
C. J. W. FOX, <i>Director</i> R. G. MEECH, <i>Director</i>	<u>\$82,145,375</u>	<u>\$71,152,618</u>

# Sheet at December 31st

LIABILITIES	1965	1964
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued charges . . . . .	\$ 6,151,758	\$ 3,187,192
Income taxes payable . . . . .	—	824,618
Dividend payable . . . . .	900,021	900,000
Long term debt due within one year . . . . .	4,183,000	967,000
	<u>\$11,234,779</u>	<u>\$ 5,878,810</u>
<b>LONG TERM DEBT</b>		
First Mortgage Bonds, Series "A"		
4% serial bonds maturing 1965 . . . . .	—	\$ 500,000
4% sinking fund bonds maturing 1975 . . . . .	10,190,000	10,290,000
	<u>\$10,190,000</u>	<u>\$10,790,000</u>
Debentures		
5% sinking fund debentures maturing 1976 . . . . .	\$ 6,906,000	\$ 7,348,000
5¾% serial debentures, Series "B" maturing 1966-1972 (\$10,000,000 U.S. funds) . . . . .	10,750,000	10,750,000
5¾% serial debentures, Series "C" maturing 1966-1975 (\$10,000,000 U.S. funds) . . . . .	10,750,000	10,750,000
	<u>\$28,406,000</u>	<u>\$28,848,000</u>
	\$38,596,000	\$39,638,000
Deduct: Held in anticipation of sinking fund and balance due within one year . . . . .	4,283,000	1,042,000
	<u>\$34,313,000</u>	<u>\$38,596,000</u>
ACCUMULATED TAX REDUCTIONS applicable to future years . . . . .	<u>\$11,115,000</u>	<u>\$ 3,295,000</u>
<b>SHAREHOLDERS' EQUITY</b>		
Common shares without nominal or par value		
Authorized 4,500,000 shares		
Issued 3,600,083 shares . . . . .	\$ 2,502,075	\$ 2,500,000
Earned Surplus . . . . .	22,980,521	20,882,808
	<u>\$25,482,596</u>	<u>\$23,382,808</u>
	<u>\$82,145,375</u>	<u>\$71,152,618</u>

The Notes to Financial Statements on page 14  
are an integral part of these financial statements.





## FINANCIAL SUMMARY: LAST TEN YEARS

Except as indicated dollars are in thousands with 000 omitted.

	1965	1964	1963	1962	1961
<b>SALES &amp; EARNINGS</b>					
Total sales, as defined on page 21	46,872	41,150	39,195	38,360	38,269
Newsprint percentage of above total sales	96.4	95.9	94.6	94.3	94
Pulp percentage of above total sales	3.6	4.1	5.4	5.7	6
Operating profit, as defined on page 21	15,746	14,068	13,523	13,186	10,730
U.S. dollar exchange profit or loss*	3,434	2,986	2,903	2,598	674
Interest charges on long term debt	774	821	863	913	959
Depreciation and depletion charges	3,167	3,032	3,131	3,285	3,208
Profit before providing for income taxes	11,863	10,417	9,672	9,086	6,645
Provision for income taxes	6,165	5,370	5,000	4,730	3,585
Net profit, total amount	5,698	5,047	4,672	4,356	3,060
Percentage up or down* from previous year	12.9	8.0	7.3	42.4	13.5
Net profit per common share; see note below	1.58	1.40	1.30	1.21	.84
Net profit per ton of total shipments; tons on page 4	16.15	16.13	15.74	14.98	10.51
Preferred dividends declared	nil	nil	nil	nil	nil
Common dividends declared, total amount	3,600	3,600	2,880	2,340	2,100
Dividends per common share; in cents	100	100	80	65	58
Dividend percentage of earnings per share	63	71	62	54	69
<b>ASSETS &amp; LIABILITIES</b>					
Current assets, at year-end	19,734	14,855	20,248	18,240	16,947
Current liabilities, at year-end	11,235	5,879	6,015	6,260	6,107
Ratio of above assets to liabilities	1.8	2.5	3.4	2.9	2.8
Working capital, as defined on page 21	8,499	8,976	14,233	11,980	10,840
Inventories at cost, described in balance sheets	9,308	7,262	7,236	8,028	8,732
Annual expenditures on properties	28,093	11,115	1,767	3,079	2,133
Fixed assets, as described in balance sheets	102,419	74,653	63,846	62,818	60,116
Long term debt, at year-end	34,313	38,596	18,138	19,180	20,222
Above debt as percentage of capitalization	57.4	62.3	45.3	48.8	51.4
Accumulated tax reduction	11,115	3,295	873	735	775
Accumulated depreciation and depletion	46,734	43,921	41,224	38,858	35,976
Earned surplus, at year-end; defined on page 21	22,981	20,883	19,436	17,643	15,628
<b>EQUITY &amp; OTHER DATA</b>					
Common shares issued; see note below	3,600,083	3,600,000	3,600,000	3,600,000	3,600,000
Number of common shareholders, at year-end	6,926	6,340	6,295	6,077	5,834
Percentage of shares held in Canada, at year-end	93.7	92.9	93.3	92.7	91.8
Shareholders' equity, total, defined on page 21	25,483	23,383	21,936	20,143	18,128
Shareholders' equity per common share	7.08	6.50	6.09	5.60	5.04
Net profit percentage return on above equity	22.4	21.6	21.3	21.6	16.9
Net profit percentage return on total sales	12.2	12.3	11.9	11.4	8
Total cash flow, as defined on page 21	16,684	10,501	7,804	7,641	6,268
Cash flow per common share	4.63	2.92	2.17	2.12	1.74
Earnings retained in the business	2,098	1,447	1,792	2,016	960
Number of employees on payroll, at year-end	2,406	2,100	1,890	1,873	1,687

All figures per share are on 3,600,083 shares issued up to the end of 1965 out of 4,500,000 authorized.

Production and shipments are summarized on page 4.

1960	1959	1958	1957	1956
38,409	35,841	31,983	28,684	26,590
93.8	88.5	82.6	81.9	77.5
6.2	11.5	17.4	18.1	22.5
10,181	8,868	8,320	7,616	8,206
880*	1,432*	908*	874*	468*
1,008	1,053	1,097	1,084	762
3,389	3,606	2,677	2,522	2,066
5,822	4,100	4,461	4,287	5,806
3,125	2,200	2,275	2,125	2,760
2,697	1,900	2,186	2,162	3,046
41.9	13.1*	1.1	29*	12.8*
.72	.49	.57	.57	.81
9.29	6.98	8.99	9.94	14.81
120	120	120	120	120
1,920	1,920	1,920	1,920	1,920
53	53	53	53	53
74	108.8	93	93	65.8
15,480	11,992	14,390	14,617	25,176
5,927	4,928	8,348	5,429	4,132
2.6	2.4	1.7	2.7	6.1
9,553	7,064	6,042	9,188	21,044
8,027	7,318	10,337	10,320	7,157
601	1,318	5,808	16,663	10,988
58,102	57,583	56,557	51,098	34,644
21,264	22,306	23,348	24,400	22,250
53.9	56.1	57.0	58.3	58.9
775	900	1,025		
32,854	29,511	26,182	23,812	21,428
14,668	13,954	14,072	13,915	12,021
3,600,000	3,600,000	3,600,000	3,600,000	3,600,000
5,291	5,392	5,800	5,657	5,712
91.0	91.1	90.7	90.2	91.0
17,168	16,454	16,572	16,415	14,521
4.77	4.57	4.60	4.56	4.03
15.7	11.5	13.2	13.2	21
7	5.3	6.8	7.5	11.5
5,967	5,386	4,743	4,565	5,242
1.66	1.50	1.32	1.27	1.46
714	—119	157	116	905
1,756	1,877	1,680	1,806	2,232

## NOTES & COMMENT

The Great Lakes Paper Company, Limited was incorporated under The Companies Act (Ontario) in 1936. We have had no active operating subsidiaries since 1959.

Our leasehold obligations are negligible and have no bearing on our financial position.

Total net profit is as recorded in annual reports. Net per common share in 1956-1960 inclusive is after deducting preference dividends paid in those years as shown, the last of the preference shares (Class B) being cancelled as of December 31st, 1960.

Net profit and dividends per common share are shown to the nearest cent on the 3,600,083 shares now issued. Dividends on common shares began in 1947 and have since been paid each quarter. They have been advanced from an annual rate of 53 cents per share in 1956-1960 to \$1.00 in 1965.

Changes in our working capital since 1956 reflect bond and debenture issues and expenditures on our major 1955-1958 newsprint mill expansion program and our further expansion in our kraft pulp mill and other projects undertaken in 1964.

Our accumulated tax reduction of \$11.1 million at the end of 1965 is explained in the section dealing with our depreciation for taxes on page 7.

Long term debt since 1956 is after deducting sinking fund instalments payable during the following year but provided for during the current year, as shown on page 17.

Terms used in this report are defined on page 21.



## Our New Pulp Mill and Other Projects

A colored diagram under the opposite page records the growth of our mill during the last ten years. White areas show our state in 1955 when we were a relatively small two-machine newsprint mill. Green areas mark our \$32 million newsprint expansion of 1955-1958 plus additions to the end of 1963 and the red areas are our expansion of 1964-1965: the kraft pulp mill with an annual capacity of 200,000 tons and other projects.

Growth is our basic policy and we have practised it by putting \$82 million into development of our properties in the ten years of 1956-1965. This is an average of \$8.2 million a year compared with an average of less than \$0.8 million a year through the preceding twenty years from the company's incorporation in 1936. From the small mill of 1955 we now rank as a major producer.

When we speak of a new mill one might suppose that this means the construction of a single building, but a pulp or paper mill is more complex. Our new kraft pulp mill consists of 13 new buildings and substantial other additions to meet the requirements of pulpwood supply, production, storage and delivery to customers. The new buildings have a floor area of over eight acres; for pulp storage alone we have a new building 400 feet long and 125 feet wide, an area similar to a football field.

As you can see by the red portions of the diagram our 1964-1965 expansion includes the addition of two pulpwood chip storage piles with a capacity of 80,000 cords, facilities for dealing with effluent,

about two miles of railway track, extension of our shipping dock on the Kaministiquia River, enlargement of our boiler plant and various other additions.

Our mill site as a whole now has 60 buildings with 21 acres of floor area, pulpwood storage piles with capacity for 270,000 cords of logs or chips, some 16 miles of railway track and 1,150 feet of shipping dock from which we can deliver to all ports of the five Great Lakes and to any part of the world market. We have shipped directly from our dock to the U.S. Atlantic coast, Europe and Australia.

By producing kraft pulp we shall make more efficient use of our wood resources and diversify our sales by entering the expanding market for bleached kraft pulp. We aim at a permanent place in this important market with a superior product supported by our 200,000 tons of annual capacity, our 13,700 square miles of forest areas and a mill location ideal for delivery by rail or water. We shall also use kraft pulp in manufacturing newsprint. By the addition of kraft pulp we can supply customers with newsprint of greater strength and of higher quality in all respects essential to the needs of modern newspapers.

Production of kraft pulp permits a wider use of pulpwood species than has hitherto been possible. This will enable us to harvest our forest areas more intensively, which should reduce wood costs for all our products. It will also assist the great changes in our woods operations, reported briefly in the section that follows.

## Great Changes in Our Woods Operations

The growth of our mill in the last ten years has been matched by great changes in our woods operations and more are to come. We have made notable strides in mechanization. A major change in 1965 was the end of moving wood to our mill by river drives; our future wood supply will be brought wholly by rail and truck.

One machine we now have in use is the Spruce Harvester, shown on the front cover of this report. The Harvester costs approximately \$85,000 and can process a 60-foot spruce or other pulpwood tree

in entirety. It grips and travels up a tree, trims off all branches, removes the top, cuts the base and drops trees to the ground in piles, all within less than a minute. We also have the Mobile Slasher, the Hydraulic Skidder and the Hydraulic Loader for cutting tree lengths into bolts and loading onto trucks and railway cars.

These changes have brought results. Since 1955-1956 our efficiency in cords per man-day, delivered at our mill, has increased materially and we expect further improvement as mechanization advances.

# Glossary of Terms in This Report

**TOTAL SALES:** Total amount we obtain from the sale of our products before deducting costs of delivery to customers and before dollar exchange.

**DOLLAR EXCHANGE:** Conversion of U.S. dollars, which we receive for most of our sales, into Canadian dollars. Results in a profit when the Canadian dollar is at a discount in relation to the U.S. dollar, as now, and a loss when the Canadian dollar is at a premium.

**OPERATING PROFIT:** Profit we get from manufacture and sale of our products after deducting wages, cost of materials, cost of delivery and all other costs except interest charges, depreciation and depletion, and taxes. Includes loss or profit from dollar exchange. Applies to operations only; does not include investment or other form of income.

**INTEREST CHARGES:** Interest we pay on bonds and debentures we have issued to borrow money, similar to interest on a mortgage; also interest on bank loans.

**DEPRECIATION:** A portion of the original cost of our fixed assets (defined below) such as plant and equipment, which we write off each year as a deduction from profit; rates fixed by income tax regulations; our method of application and details of our policy fully explained in this report.

**DEPLETION:** Similar to depreciation but applies to our usage of pulpwood from our licenced forest areas rather than to plant and equipment; maximum amount fixed by income tax regulations.

**NET PROFIT:** Our total income (operating profit plus all other income as defined above) less interest charges, depreciation and depletion, directors' fees, taxes and all other related costs; the net income we have at end of a year to pay dividends or retain for use in our business.

**CASH FLOW:** Total cash generated by operations in a year. Consists of net profit available for common dividends plus amount of depreciation and depletion charged against operations for the current year and plus charges, if any, for special reserves.

**EARNED SURPLUS:** Accumulated total of our annual net profits since the start of the company (1936) less dividends to shareholders during the same period and after taking into account capital gains or losses such as bond and debenture issue expenses.

**ASSETS:** Everything we own, consisting of two main classes: current assets and fixed assets.

**CURRENT ASSETS:** Cash and all assets we can normally expect, within a year, to convert into cash or to consume in the process of earning income.

**FIXED ASSETS:** Long term assets, such as land, buildings, plant and equipment, which we hold for earning income rather than for sale or conversion.

**LIABILITIES:** Everything we owe, such as bills, taxes and borrowed money; consist of two main classes: current liabilities and long term debt.

**CURRENT LIABILITIES:** Amounts we owe due for payment within one year; usually consist of bills for services and materials, accrued charges, sinking fund instalments, taxes and interest charges; in general, means short term debt.

**ACCRUED CHARGES:** Amounts we owe for payment later, such as wages and other charges that accumulate until their due date.

**LONG TERM DEBT:** Amounts we owe from borrowing money by issues of bonds and debentures which, ordinarily, must be repaid within the term or period of each issue. Our longest present terms are for bonds due 1975 and debentures due 1976.

**SINKING FUND:** Cash amounts we pay to independent trustees of our bond and debenture issues, as stipulated in the trust deeds of these issues, to provide annual instalments for their redemption. Long term debt is reduced accordingly, like reducing a mortgage.

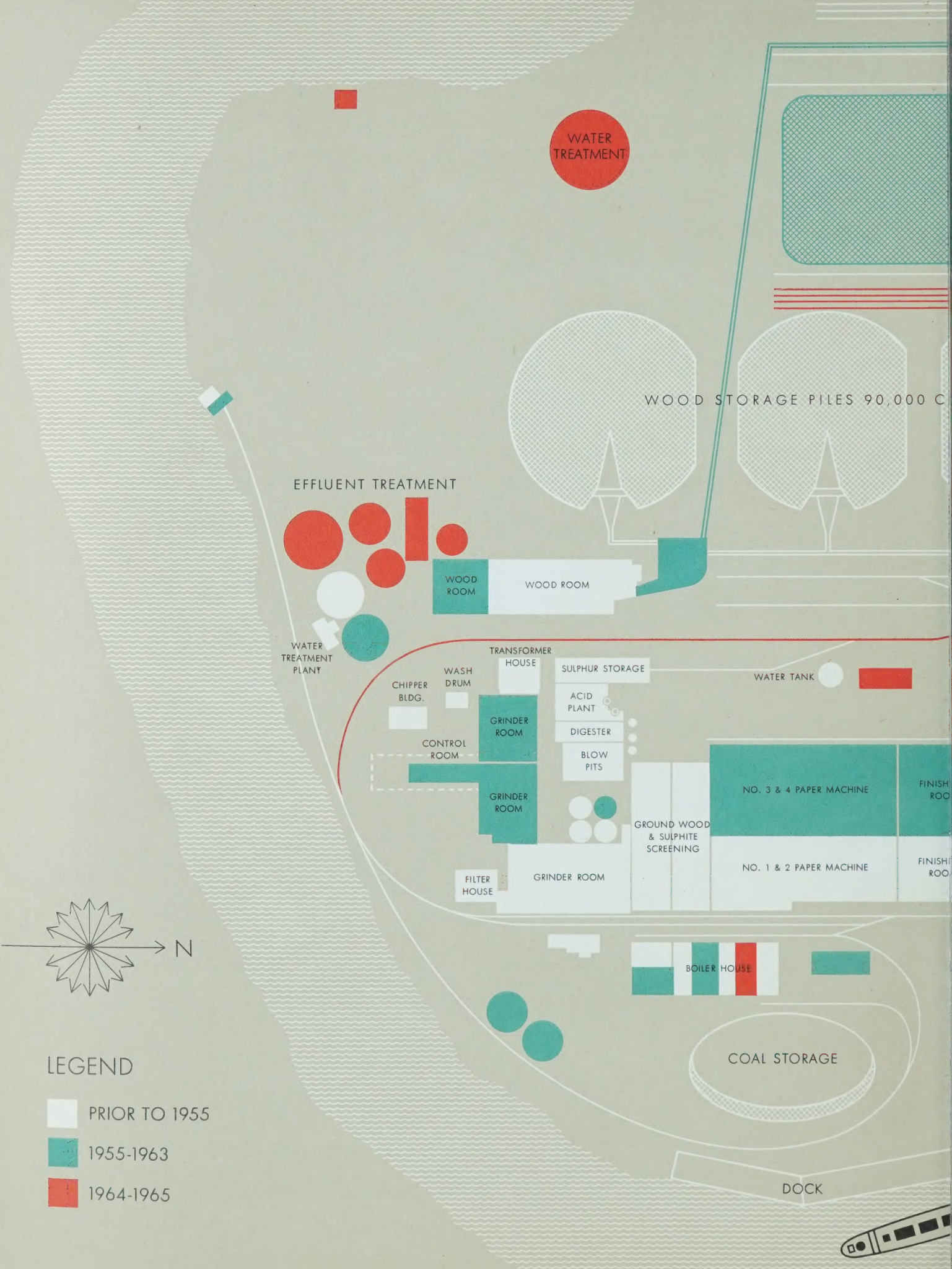
**WORKING CAPITAL:** Amount by which our current assets exceed our current liabilities, both as defined above. This is a measure of our working or operating resources.

**BALANCE SHEET:** Statement of our financial position at a year-end showing what we possess (assets of all kinds) versus what we owe (liabilities of all kinds) and shareholders' equity; set forth in accordance with Ontario Corporations Act. The word "consolidated" means that all subsidiaries are included to show position of our enterprise as a whole.

**SHAREHOLDERS' EQUITY:** Value of the shareholders' ownership or interest in the company, shown on our balance sheet. Consists of share capital plus earned surplus and is the amount by which our total assets exceed our liabilities.

*For further definitions and information we recommend publications issued by the Canadian Institute of Chartered Accountants and by The Investment Dealers' Association of Canada.*





WATER  
TREATMENT

WOOD STORAGE PILES 90,000 C

EFFLUENT TREATMENT

WOOD  
ROOM

WOOD ROOM

WATER  
TREATMENT  
PLANT

TRANSFORMER  
HOUSE

SULPHUR STORAGE

WATER TANK

CHIPPER  
BLDG.

WASH  
DRUM

ACID  
PLANT

DIGESTER

BLOW  
PITS

CONTROL  
ROOM

GRINDER  
ROOM

GRINDER  
ROOM

GROUND WOOD  
& SULPHITE  
SCREENING

NO. 3 & 4 PAPER MACHINE

FINISH  
ROOM

NO. 1 & 2 PAPER MACHINE

FINISH  
ROOM

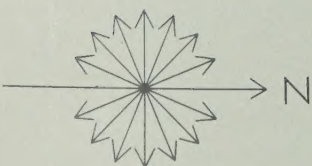
FILTER  
HOUSE

GRINDER ROOM




BOILER HOUSE

COAL STORAGE

DOCK



LEGEND

-  PRIOR TO 1955
-  1955-1963
-  1964-1965



WOOD STORAGE 1500 FEET LONG 100,000 CORDS

CHIP STORAGE 80,000 CORDS

KRAFT PULP MILL 13 BUILDINGS

TRAIN SHED

TRAIN SHED

OFFICE BLDG.

GARAGE

PARKING

PARKING

PULP STORAGE

KAMINISTIKWIA RIVER

0' 100' 200' 300'  
SCALE: 





## OUR MILL LOCATION

At Fort William, Ontario we have the largest newsprint mill in eastern Canada. We also produce various grades of pulp, as described in this report. Adjoining our mill we hold under government licence 13,700 square miles of forest areas, indicated above by the red block. Here we harvest our main pulpwood supply which we bring to the mill by rail and truck. We deliver to customers by both water and rail. Our newsprint goes to over 120 newspapers in 14 states of the U.S. midwest. As noted on page 20, we have also shipped directly from our mill dock to overseas markets and the Atlantic coast.